HSIL Limited

August 01, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Commercial Papers*	300 (enhanced from 250)	**CARE A1+**	Reaffirmed

** carved out of working capital limits of the company*
Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the facilities of HSIL Limited (HSIL), continue to derive strength from the experience of the promoters, established track record, wide distribution network with recognized brand name in sanitary ware and established relations with institutional clients in the container glass segment. The ratings also factor in the diversified presence in the building products and packaging products segments, consistent growth in the faucet ware & consumer durable segment, comfortable liquidity position, healthy capital structure and comfortable debt coverage indicators. These rating strengths are, however, partially off-set by susceptibility to raw material and fuel price fluctuation risk, foreign exchange fluctuation risk and high competition in the industry. The reaffirmation of the ratings also factor in the ongoing debt funded capital expenditure undertaken by the company and the merger of the retail business of Hindware Home Retail Private Limited (HHRPL) in HSIL.

Going forward, the ability of HSIL to successfully execute its capital expenditure projects and derive the projected returns, maintaining its market position in the sanitary ware segment while growing in faucet ware, consumer durables and container glass segment along with maintaining a comfortable capital structure would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team: HSIL is promoted by Dr R K Somany who is the Chairman and Managing Director of the company and has an extensive experience of over 60 years in the industry. The board of the company is broad-based and has several independent professional members having vast industry experience in diverse backgrounds. The operations of the company are managed by well qualified and experienced senior management team.

Diversified business operations with wide distribution network: HSIL has well-diversified operations which include sanitary ware, faucets, wellness and other allied products under Building Products Division (BPD), while the Packaging Products Division (PPD) includes container glass and pet bottle business. Further HSIL also has Consumer Product Division (CPD) which includes includes Kitchen appliances, water heaters, Air Purifiers water purifiers & air coolers and Retail division which includes retail furniture, home furniture, and modular kitchen business. The company has major focus on the retail market for building products and has wide retail spread with presence in more than 50 cities across India. Also, the company has more than 550 institutional clients under the packaging division.

Strong brand name and established client relationship for institutional business: HSIL's sanitary-ware brand '*Hindware*' is one of the oldest and well-known brands and is the market leader in the segment. HSIL also manufactures faucets and is the third largest player in the segment. Also, under the packaging division, through container glass manufacturing, the company has a presence in liquor, food and beverages as well as pharmaceutical sectors. HSIL is the second largest player in the container glass industry in terms of revenue and capacity.

Comfortable financial profile: HSIL's income from operation has increased by 7% in FY17 (refers to the period April 01 to March 31) to Rs.2,067.08 crore. The PBILDT margins have however declined to 13.78% in FY17 vis-à-vis 15.50% in FY16. The profit margin has declined mainly due to setting-up of its consumer division, increasing proportion of income from

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

faucets in building product division (with lower PBIT margins) as well as gain on fair valuation of derivative contracts in FY16. The profit margins further declined on account of other operating income (incentives under Mega Project Scheme from government of Telangana)of Rs.17.41 crore in FY16 (Nil during FY17). HSIL has overall gearing of 0.76x as on March 31, 2017 (PY: 0.54x). The increase in gearing is mainly on account of high utilization of working capital limits as on March 31, 2017 & ongoing debt funded capital expenditure undertaken by the Company. However, the utilization of working capital limits reduced in April & May 2017 as reflected in the reduction of total debt from Rs 933.02 crore as on March 31, 2017 to Rs 745.92 crores as on May 31, 2017.

Key Rating Weaknesses

Exposure to raw material cost and fuel price fluctuation: Soda ash is a major raw material for manufacturing of container glass has been the key contributor to the raw material cost. Also, power and fuel cost is another significant cost-item for the company. The company has the policy to pass-on the increase in costs to consumers either fully or partially but with a lag, depending upon the demand and the competitive scenario.

Foreign currency fluctuation risk: With limited exports relative to imports along-with foreign currency borrowings, HSIL is exposed to exchange rate fluctuation risks. Although, HSIL has a practice to hedge its forex exposure from time to time to mitigate the risk attached with foreign currency fluctuation risk. However, in the absence of natural hedge HSIL remains exposed to foreign exchange fluctuation risks.

Ongoing debt funded capex: HSIL is undertaking capex pertaining to the establishment of new manufacturing facility as well expansion of existing manufacturing facility. The same is envisaged to be majorly funded through new debt availment in FY17 and FY18.

Competitive nature of industry: HSIL currently has a major presence in the building products (pertains to sanitary ware and faucet ware products) and container glass segments. There is a substantial shortage of housing and sanitation facilities in India, which is expected to result in steady demand for sanitary ware products. Furthermore, factors such as increasing urbanization with the government's plan to develop at least 100 smart cities, renewed focus on infrastructure growth, better demographic profile and increasing awareness towards better sanitation facilities augurs well for the industry. The sanitary ware and faucet ware industry are significantly fragmented with high contribution from the unorganized sector and established brands like 'CERA', 'Parryware' in sanitary ware, 'Jaquar' in faucet ware thus increasing competition.

Analytical approach: Standalone

Applicable Criteria

CARE's Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's Methodology for Short-term Instruments
CARE's Methodology for manufacturing companies
Rating Methodology: Factoring Linkages in Ratings
Financial Ratios – Non Financial Sector

About the Company

HSIL (CIN: L51433WB1960PLC024539), incorporated in February 1960, was promoted by Kolkata-based Somany brothers and, currently, the management control vests with Dr R K Somany faction. HSIL operates majorly through four divisions, namely, Building Products (BPD; includes sanitary ware, faucet ware and consumer durables), Packaging Products (PPD; includes container glass and pet bottles), Consumer Products (CPD; includes Kitchen appliances, water heaters, Air Purifiers, water purifiers & air coolers) and Retail division (Includes Retail furniture, Home furniture, and modular kitchen business vested in HSIL pursuant to the scheme of arrangement entered into by HSIL with HHRPL) with about 46% of gross sales in FY17 (refers to the period April 1 to March 31) from BPD while PPD accounted for 43% of the gross sales in FY17, CPD and retail division contributing 6% & 4% respectively.

The company has nine manufacturing units spread across Haryana (sanitary-ware), Telangana (container glass, caps & closure and sanitary-ware), Rajasthan (faucets), Karnataka (PET Bottles) and Uttarakhand (PET Bottles) and one is under construction in Telangana. The company also undertakes trading of consumer durables including Kitchen hoods and chimneys, water heaters, air purifiers, water purifiers & air coolers & trading for retail furniture, home furniture and modular kitchen,

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1928.13	2067.08
PBILDT	298.80	284.90
PAT	116.26	105.55
Overall gearing (times)	0.54	0.76
Interest coverage (times)	7.28	8.54

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
Name: Mr Gaurav Dixit
Tel: 011 4533 3235
Mobile: +91 97170 70079
Email: gaurav.dixit@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper	-	-	7 to 364 days	250.00	CARE A1+
Proposed Commercial Paper				50.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	436.63	CARE AA-; Stable	1)CARE AA-; Stable (27-Apr-17)	1)CARE AA-; Stable (09-Mar-17) 2)CARE AA-; Stable (11-Jan-17) 3)CARE AA- (07-Nov-16)	1)CARE AA- (18-Dec-15) 2)CARE A+ (09-Apr-15)	-
2.	Commercial Paper	ST	300.00	CARE A1+	1)CARE A1+ (27-Apr-17)	1)CARE A1+ (09-Mar-17) 2)CARE A1+ (11-Jan-17) 3)CARE A1+ (07-Nov-16)	1)CARE A1+ (18-Dec-15) 2)CARE A1+ (01-Jul-15) 3)CARE A1+ (09-Apr-15)	1)CARE A1+ (30-Sep-14)
3.	Fund-based - LT-Cash Credit	LT	500.00	CARE AA-; Stable	1)CARE AA-; Stable (27-Apr-17)	1)CARE AA-; Stable (09-Mar-17) 2)CARE AA-; Stable (11-Jan-17) 3)CARE AA- (07-Nov-16)	1)CARE AA- (18-Dec-15) 2)CARE A+ (09-Apr-15)	-
4.	Non-fund-based - ST-BG/LC	ST	250.00	CARE A1+	1)CARE A1+ (27-Apr-17)	1)CARE A1+ (09-Mar-17) 2)CARE A1+ (11-Jan-17) 3)CARE A1+ (07-Nov-16)	1)CARE A1+ (18-Dec-15) 2)CARE A1+ (09-Apr-15)	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691